



Commodity Futures Trading Commission

Office of Public Affairs

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Final Rule on Derivatives Clearing Organization General Provisions and Core Principles

The Commodity Futures Trading Commission (Commission) is considering final regulations that establish standards for compliance with certain core principles applicable to derivatives clearing organizations (DCOs). The regulations also implement related provisions concerning DCOs including, among others, requirements for DCO chief compliance officers and procedures for DCO applications.

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)

Section 725(c) of the Dodd-Frank Act amended Section 5b(c)(2) of the Commodity Exchange Act (CEA), sets forth core principles with which a DCO must comply to be registered and to maintain registration as a DCO. The Dodd-Frank Act revised the 14 existing core principles and added four new ones. The Dodd-Frank Act also amended the CEA to confirm the Commission's authority to adopt implementing rules and regulations for the core principles pursuant to its rulemaking authority under Section 8a(5) of the CEA.

DCO Core Principles

The regulations establish standards for compliance with 15 of the 18 core principles: Core Principles A (Compliance), B (Financial Resources), C (Participant and Product Eligibility), D (Risk Management), E (Settlement Procedures), F (Treatment of Funds), G (Default Rules and Procedures), H (Rule Enforcement), I (System Safeguards), J (Reporting), K (Recordkeeping), L (Public Information), M (Information Sharing), N (Antitrust Considerations), and R (Legal Risk). Some of these core principles and corresponding regulations are highlighted below.

Core Principle B - Financial Resources

Regulation 39.11 sets forth the requirements that a DCO would have to meet to comply with Core Principle B. The regulation requires a DCO to maintain sufficient financial resources: (1) to meet its financial obligations to its clearing members notwithstanding a default by the clearing member creating the largest financial exposure for the DCO in extreme but plausible market conditions; and (2) to cover its operating costs for at least one year, calculated on a rolling basis. The regulation addresses permitted types of financial resources, computation, valuation, liquidity, and reporting requirements.

Core Principle C - Participant and Product Eligibility

Regulation 39.12 sets forth the requirements that a DCO would have to meet to comply with Core Principle C. The regulation addresses product eligibility and participant eligibility (including fair and open access, financial resources, operational requirements, and monitoring, reporting, and enforcement).

Core Principle D - Risk Management

Regulation 39.13 sets forth the requirements that a DCO would have to meet to comply with Core Principle D. The regulation addresses requirements for a DCO's risk management framework (including margin methodology and coverage, price data, daily review and periodic back tests) and other risk control mechanisms (including risk limits, review of large trader reports, stress tests, and reviews of clearing members' risk management policies and procedures).

Core Principle F – Treatment of Funds

Regulation 39.15 sets forth the requirements that a DCO would have to meet to comply with Core Principle F. The regulation addresses segregation of customer funds and assets, acceptable types of margin assets, valuation of assets, haircuts, concentration limits, and permissible investments.

Core Principle G – Default Procedures

Regulation 39.16 sets forth the requirements that a DCO would have to meet to comply with Core Principle G, including default procedures and actions in the event of a clearing member insolvency.

Core Principle I – System Safeguards

Regulation 39.18 sets forth the requirements that a DCO would have to meet to comply with Core Principle I, addressing programs for business continuity and disaster recovery, location of resources, recordkeeping, and testing.

Core Principle J – Reporting

Regulation 39.19 sets forth the requirements that a DCO would have to meet to comply with Core Principle J, including periodic reporting and event-specific reporting, relating to either significant financial changes at the DCO or problems arising with a clearing member.

Chief Compliance Officer

Section 725(b) of the Dodd-Frank Act requires each DCO to designate a Chief Compliance Officer (CCO) and specifies certain duties of the CCO. Regulation 39.10 codifies the statutory requirements for CCOs and specifies additional requirements, including procedures for filing the annual report required by the Dodd-Frank Act.

DCO Application Form

The regulations would revise Appendix A to Part 39 of the Commission's regulations, "Application Guidance and Compliance with Core Principles," by removing the current content and substituting in its place a "Form DCO" application form. All applicants for DCO registration would be required to file a completed Form DCO with the Commission.